

## Overview

- Egypt-headquartered Orascom Telecom is raising \$800 million via a
- proposed rights issue to strengthen its balance sheet.
- We are placing the 'CCC+' corporate credit rating on Orascom Telecom on
- CreditWatch with positive implications.
- The CreditWatch placement reflects our view that the rights issue should
- improve liquidity at the parent company level.

## Rating Action

On Dec. 16, 2009, Standard & Poor's Ratings Services placed its 'CCC+' long-term corporate credit rating on Egypt-headquartered wireless telecommunications operator Orascom Telecom Holdings S.A.E. (Orascom Telecom) and Orascom Telecom Finance S.C.A. on CreditWatch with positive implications. In addition, the 'CCC-' issue rating on the \$750 million senior unsecured notes issued by Orascom Telecom Finance was also placed on CreditWatch with positive implications.

## Rationale

The CreditWatch placement reflects our view that the receipt of up to \$800 million in funds via a rights issue should improve liquidity at the parent company level. We currently consider Orascom Telecom's liquidity to be weak, given the uncertainty over the timing of the receipt of dividends from the group's largest and most important subsidiary, 96.8%-owned Orascom Telecom Algeria (OTA; not rated; which operates under the brand name Djezzy). The additional funds should enable Orascom Telecom to continue to execute its business plan and to manage its liquidity profile and cash needs, which include tax, interest, debt maturities and rollovers, and dividend payments to shareholders.

The rating on Orascom Telecom remains constrained by our view of the higher-than-average political, institutional, and regulatory risks in the emerging markets in which it operates. The rating is further constrained by Orascom Telecom's significant exposure to foreign exchange risk and high leverage. In addition, the receipt of an Official Tax Assessment of about \$597 million from the Direction G n rale des Entreprises, the Algerian tax department responsible for large companies, makes the timely receipt of dividends from this asset in 2010 more unpredictable, in our view.

The rating is supported by our view of growth prospects in Orascom Telecom's markets, in terms of the market fundamentals of increasing penetration and usage of telecom services. The group has leading positions in Algeria, Pakistan, Egypt, and Tunisia, which generate the bulk of its consolidated EBITDA. The potential for significant growth in cash flow, as well as positive

cash flow generation (notably from operations in Algeria, Egypt, and Tunisia), and Orascom Telecom's experience in developing and operating mobile communications networks in emerging markets, support the group's credit profile.

## Liquidity

We currently view Orascom Telecom's liquidity as weak, particularly at the parent company level. This is because of the difficulties in upstreaming cash from Algeria, and because we believe that the dividends from Algeria could be delayed as a result of the tax assessment claim issued by the authorities. The dividends in question relate to financial year 2008, or to those due in 2010 for financial year 2009.

On a consolidated basis, Orascom Telecom is not generating positive free operating cash flow due to its high level of investments. That said, the group has reduced its capital expenditures (capex) in markets where its original growth expectations have declined (that is, in Pakistan and Bangladesh). In addition, the main maturities are relatively well extended at the Orascom Telecom Holdings level. These maturities include the group's \$2.5 billion senior secured bank facility due 2013, which starts amortizing in 2010, and its \$750 million bond due 2014.

Consolidated liquidity on Sept. 30, 2009, took the form of \$652 million in consolidated cash and equivalents, while cash and equivalents at the parent company level were \$215 million.

Orascom Telecom's reported consolidated short-term debt was \$530 million on Sept. 30, 2009; this includes \$248 million at the parent company level. The group expects to refinance this by a number of means, including the use of available cash (including cash that has become available from Algeria), drawdowns on committed and available loans, and the rollover of existing debt--all of which are subject to availability and market conditions.

The management of liquidity can be subject to sovereign and business risks in the operating environment--as reflected by the situation in Algeria. These risks add to our earlier concerns about liquidity at Orascom Telecom's most highly indebted and 100%-owned subsidiary, Pakistan Mobile Communications Ltd. (Mobilink; CCC+/Negative/--). We believe that Orascom Telecom's immediate liquidity needs are covered at Mobilink and that Orascom Telecom has the flexibility to reduce capex. Even so, any increase in the group's exposure to potential funding risks at Mobilink, or any difficulty that Mobilink may have in maintaining covenant compliance in 2010, could burden Orascom Telecom.

Orascom Telecom currently complies with, and has adequate headroom under, the financial covenants on its five-year \$2.5 billion senior secured bank facility. However, delays in the receipt of dividends from Algeria in 2010 would cause the covenant headroom to weaken substantially, in our view.

#### CreditWatch

To resolve the CreditWatch placement, we could raise the rating by one notch or more if, subject to our review, Orascom Telecom were to demonstrate that its liquidity profile was sufficient for its needs. By this we mean that the group would be clearly able to service its upcoming maturing facilities, and to invest adequately in its portfolio where necessary. This could be achieved, among other things, by the group's proposed \$800 million rights issue. Any potential upgrade of more than one notch would likely be contingent on, first, the successful resolution of the delayed dividend payments from Algeria, which relate to OTA's performance in 2008, and second, on clarity and certainty on the receipt of dividends relating to the performance of the Algerian business in 2009.

On the other hand, noncompletion of the rights issue could, in our view, lead us to affirm or downgrade the ratings in the absence of any other available sources of financing, either externally, or from dividends from the group's operating subsidiaries, particularly from Algeria.

#### Related Research

- [Use Of CreditWatch And Outlooks](#), Sept. 14, 2009
- [How Standard & Poor's Uses Its 'CCC' Rating](#), Dec. 12, 2008
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#### Ratings List

CreditWatch/Outlook Action

	To	From
Orascom Telecom Holdings S.A.E.		
Orascom Telecom Finance S.C.A.		
Corporate Credit Rating	CCC+/Watch Pos/--	CCC+/Negative/--
Orascom Telecom Finance S.C.A.		
Senior Unsecured	CCC-/Watch Pos	CCC-

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action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers:  
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